



RURAL TELEPHONE  
FINANCE  
COOPERATIVE

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

CC 96-262

January 29, 1997

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, N. W.  
Room 222  
Washington, DC 20554

Re: FCC 96-488

Dear Mr. Caton:

Enclosed is the original and nine copies of the comments of the Rural Telephone Finance Cooperative in the above referenced proceeding.

Sincerely,

Henry I. Buchanan, III  
Vice President of Marketing

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List #1000

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Before the  
**Federal Communications Commission**  
Washington, D.C. 20554

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**JAN 29 1997**  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of:	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local	)	
Exchange Carriers	)	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
	)	
Usage of the Public Switched Network by	)	
Information Service and Internet Access	)	
Providers	)	CC Docket No. 96-263

**Comments**  
**of the**  
**Rural Telephone Finance Cooperative**

The Rural Telephone Finance Cooperative (RTFC) hereby submits its comments in response to the Commission's Notice of Proposed Rulemaking (NPRM) released December 24, 1996, FCC 96-488. RTFC is a privately funded, member-owned, cooperative finance organization that provides financing exclusively to America's rural telecommunications industry. RTFC supplies member rural telecommunications providers with alternative and complementary sources of financing to traditional federal lending sources such as the Rural Utilities Service and the Rural Telephone Bank. RTFC has extended approximately \$1.8 billion in short, intermediate and long term financing commitments to its 450 telephone company members and their affiliates and has at present \$1.1 billion in outstanding loans.

In monitoring the Commission's interconnection and universal service proceedings, RTFC has become increasingly concerned with the Commission's advocacy of basing cost recovery on hypothetical costs of an optimally efficient network - so called forward-looking economic costing. It was therefore with some relief that we noted the Commission's recognition in the NPRM of the need to compensate local exchange carriers for stranded investment costs arising from changes to access. There will likely also be stranded investment from interconnection and any separations reform. In any of these events, the rural telephone company will not recover enough under a forward-looking costing scheme to cover embedded costs incurred under the existing regulatory regime.

Rural telephone companies and cooperatives have built the most modern and efficient systems possible in order to provide quality, affordable telephone service to rural Americans. Not only rural residents benefit from these modern systems, however. Interexchange carriers, whose customers are able to originate calls from, and complete calls to rural exchanges also benefit. Urban residents who can complete calls to rural areas and enjoy quality communications benefit as well. RTFC is pleased to play a role in providing these benefits to the nation.

RTFC is able to provide very favorable interest rates on the funds it lends to members because for its ten year history rural telephone loans have been very secure. The financial markets through which RTFC secures its financing have viewed the rural telephone industry as a stable and viable industry, whose capital investments, for the most part, are not made without the approval of state or federal regulators. Given regulatory approval to make certain investments and/or incur debt financing, it is felt that the regulators' approval of rates adequate to repay the debt is all but certain. We do not lend unless we are assured of the ability of the borrower to repay the loan.

Neither do we lend unless we are assured that the purposes for which the loan is sought are prudent. Before RTFC extends credit to a borrower, it has thoroughly reviewed the business plan

of the borrower to assure that the purposes and amount of the investment are prudent and are of a scale appropriate for the borrower.

Given that their embedded investments have been of a prudent nature, telephone companies should be allowed to recover all stranded investment arising from the adoption of forward-looking economic costing in any proceeding. The embedded costs incurred by rural telephone companies to provide service were not inflated or excessive. The costs represent the investment necessary to provide service to rural Americans under the regulatory regime that has existed to date. Rural telcos should not be made to suffer irreparable financial harm in order to advantage (and thereby encourage market entry by) new local exchange competitors and interexchange carriers, many of whom are among the world's largest communications companies.

Access revenues are critical to the ability of borrowers to repay their loans, comprising two-thirds of rural telcos' total revenues. If these revenues are severely reduced due to forward-looking costing methodologies, some mechanism must be put in place to make the rural telcos whole for their stranded investment. Without such a mechanism, the ability of rural telcos to pay their debts and therefore the ability of RTFC to continue providing debt capital to the rural telephone industry will be uncertain.

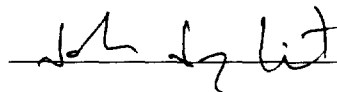
Clearly there is no public benefit from having rural telephone companies default on their loans as a result of regulatory policies. This is especially so in view of the fact that regulatory policies were the reason the investment were made (and debt incurred) in the first place.

For the future, lenders must be reasonably confident that financing provided for the prudent investments made by rural telcos will be repaid. Without such confidence, rural telcos will not be able to attract capital to fund their upgrades and improvements and service in rural America will suffer, to the detriment of all telecommunications users.

RTFC urges the Commission to provide for a mechanism through which rural telephone companies can recover any stranded investment. All telecommunications users will benefit as a result.

Respectfully submitted,

**RURAL TELEPHONE FINANCE COOPERATIVE**

A handwritten signature in dark ink, appearing to read "J. J. List", is written over a horizontal line.

John J. List  
Senior Vice President,  
Member Services

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January 29, 1997